

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Hale Community Energy, LLC**

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Petersburg ISD Financial Impact of Chapter 313 Agreement

Summary of Petersburg ISD Financial Impact of the Limited Appraised Value Application from Hale Community Energy, LLC

Introduction

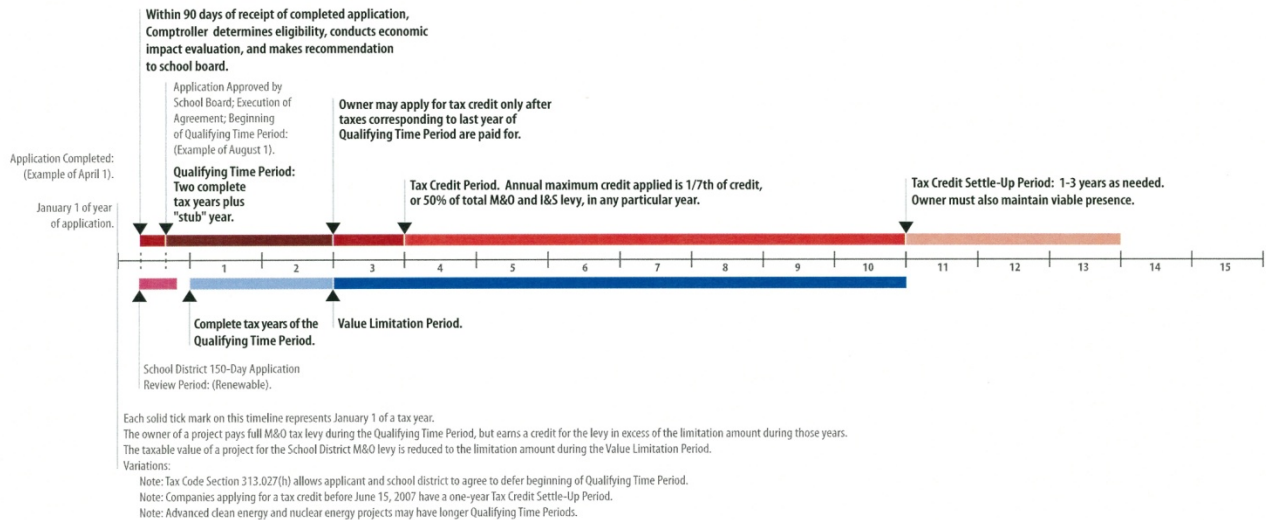
Hale Community Energy, LLC applied for a property value limitation from Petersburg Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 21, 2013 and subsequently approved for consideration by the Petersburg ISD Board of Trustees. Hale Community Energy, LLC (“Hale Energy”), is requesting the property value limitation as a “renewable energy electric generation” project as listed in Sec. 313.024.(b) of the Tax Code.

“The Economic Development Act “, Tax Code Chapter 313, was created by House Bill 1200 of the 77th Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80th Texas Legislative Session in 2007.

The Economic Development Act was created to attract qualifying businesses to Texas by allowing school districts the option of approving a property value limitation to these qualifying entities. The purpose of the property value limitation is to reduce the maintenance and operations taxes paid by the company, to a school district during the applicable years as displayed below.

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Appraised Value Limitation and Credit under Tax Code Chapter 313 for School District Maintenance & Operations (M&O) Tax



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement ("LAVA" or "Agreement") to begin the following tax year or a later year if agreed upon by the District and the Company. The first two years of the agreement are considered the qualifying time period and the company's school district taxes will be levied at one-hundred percent of the appraised value. The applicant may then file a separate application with the school district to request tax credits (for taxes paid during the qualifying time period) to be applied during years four through ten of the LAVA, but not to exceed 50% of their tax levy for those years. Any tax credit balance remaining after this period can then be applied during years eleven through thirteen of the agreement, but cannot exceed the actual amount of taxes paid to the school district during the Settle-Up Period. After year thirteen, any leftover credits will not be applied and will expire.

During years three through ten of the LAVA, the qualifying entity's taxable value will be reduced to the minimum qualified investment for the applicable school district as determined by the State Comptroller's Office. Petersburg ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least \$1 million but less than \$90 million, thus Petersburg ISD has a minimum qualified investment amount of \$10 million. A qualifying entity's taxable value would be

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reduced to \$10 million during years three through ten of the agreement for the purposes of computing the tax levy for the maintenance and operations (M&O) tax of Petersburg ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

Taxable Value Impact from LAVA

The “Additional Value from Hale Energy” represents the values that the company estimated as their taxable values in the application that was filed with the district. During years three through ten, the company’s taxable value will be limited to the \$10,000,000 minimum qualified investment of Petersburg ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Hale Energy	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	0	n/a	0	0
Jan. 1, 2016	130,000,000	n/a	0	130,000,000
Jan. 1, 2017	315,480,000	(10,000,000)	305,480,000	10,000,000
Jan. 1, 2018	302,860,800	(10,000,000)	292,860,800	10,000,000
Jan. 1, 2019	290,746,368	(10,000,000)	280,746,368	10,000,000
Jan. 1, 2020	279,116,513	(10,000,000)	269,116,513	10,000,000
Jan. 1, 2021	267,951,853	(10,000,000)	257,951,853	10,000,000
Jan. 1, 2022	257,233,779	(10,000,000)	247,233,779	10,000,000
Jan. 1, 2023	246,944,427	(10,000,000)	236,944,427	10,000,000
Jan. 1, 2024	237,066,650	(10,000,000)	227,066,650	10,000,000
Jan. 1, 2025	227,583,984	n/a	0	227,583,984
Jan. 1, 2026	218,480,625	n/a	0	218,480,625
Jan. 1, 2027	209,741,400	n/a	0	209,741,400

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Hale Energy's Tax Benefit from Agreement

The projected amount of the net tax savings for Hale Energy is \$22.954 million over the life of the Agreement. This net savings is after all tax credits have been applied and after estimated payments have been made to the district to offset their revenue losses that were a direct result of entering into this Agreement. Tax credits during years four through ten are limited to the lesser of 1/7 of the total tax credit or 50% of the total taxes paid for that tax year. Any tax credits not refunded to the company during those years will be refunded up to 100% of the taxes paid in years eleven through thirteen.

Petersburg ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has not held a tax ratification election and the study projects that it will maintain an M&O tax rate of \$1.17 for the life of this agreement. The M&O rates for 2016-2017 & 2025-2026 are projected to drop to \$1.04 due to the rollback tax rate calculations.
- The district currently has no outstanding bonds and no I&S tax rate is projected in the study. The district could however pursue a bond election and issue bonded debt during the life of this agreement.

TABLE II- Computation of Net Tax Savings:

Fiscal Year	Projected M&O Tax Rate	Projected I&S Tax Rate	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2015-2016	1.170	0.00	0	0	n/a	0	0
2016-2017	1.040	0.00	1,352,000	0	n/a	0	0
2017-2018	1.170	0.00	3,691,116	3,574,116	n/a	(3,067,146)	506,970
2018-2019	1.170	0.00	3,543,471	3,426,471	58,500	0	3,484,971
2019-2020	1.170	0.00	3,401,733	3,284,733	58,500	0	3,343,233
2020-2021	1.170	0.00	3,265,663	3,148,663	58,500	0	3,207,163
2021-2022	1.170	0.00	3,135,037	3,018,037	58,500	0	3,076,537
2022-2023	1.170	0.00	3,009,635	2,892,635	58,500	0	2,951,135
2023-2024	1.170	0.00	2,889,250	2,772,250	58,500	0	2,830,750
2024-2025	1.170	0.00	2,773,680	2,656,680	58,500	0	2,715,180
2025-2026	1.040	0.00	2,366,873	0	838,500	0	838,500
2026-2027	1.170	0.00	2,556,223	0	0	0	0
2027-2028	1.170	0.00	2,453,974	0	0	0	0
Totals			34,438,656	24,773,585	1,248,000	(3,067,146)	22,954,438

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Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Petersburg ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the renewable energy electric generation company. Second, a thirteen year financial forecast was prepared that incorporated the additional taxable value of the company without a LAVA in effect. Third, a thirteen year financial forecast was prepared that incorporates the additional taxable value of the company with an approved LAVA. These three forecasts are detailed in the “Calculation of LAVA Impact on District’s Finances” section. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2013-2014 fiscal year) were used for state aid and recapture calculation purposes
 - Level 2 of Tier II yield - \$61.86 per weighted student in average daily attendance (WADA) per penny of tax effort
- The district’s tax rate for maintenance & operations (M&O) will remain at the same rate as for tax year 2013.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of 1.0% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2013 taxable value was used as a baseline for all projections
- The district’s enrollment is projected to decrease slightly; therefore, the projected ADA and WADA for school year 2013-2014 was decreased by .5% per year for the life of the agreement.

Although these assumptions were used to develop a baseline scenario for comparison purposes, many of these factors will not remain constant for the thirteen years of this proposed agreement. Also, Legislative changes to the school finance formulas are likely during the near future and almost certain during the life of this agreement.

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Calculation of LAVA Impact on District's Finances

The tables displayed below (Table III, IV, V) show the different impacts on the school district's finances. These scenarios were computed to compare the District's revenue without the additional taxable value of Hale Energy (Table III), the addition of Hale Energy's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Hale Energy's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Hale Community Energy, LLC:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2015-2016	73,026,542	730,265	1,562,662	0	2,292,927	312,343	2,605,270
2016-2017	73,756,807	737,568	1,539,838	0	2,277,406	312,248	2,589,654
2017-2018	74,494,375	744,944	1,522,099	0	2,267,042	310,651	2,577,693
2018-2019	75,239,319	752,393	1,504,281	0	2,256,674	309,062	2,565,737
2019-2020	75,991,712	759,917	1,486,393	0	2,246,310	307,482	2,553,792
2020-2021	76,751,629	767,516	1,468,427	0	2,235,944	305,910	2,541,854
2021-2022	77,519,146	775,191	1,450,396	0	2,225,588	304,347	2,529,935
2022-2023	78,294,337	782,943	1,432,263	0	2,215,206	302,792	2,517,998
2023-2024	79,077,280	790,773	1,414,063	0	2,204,836	301,245	2,506,081
2024-2025	79,868,053	798,681	1,395,784	0	2,194,464	299,706	2,494,171
2025-2026	80,666,734	806,667	1,372,284	0	2,178,951	298,575	2,477,526
2026-2027	81,473,401	814,734	1,353,843	0	2,168,577	296,654	2,465,231
2027-2028	82,288,135	822,881	1,335,349	0	2,158,230	295,140	2,453,370

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TABLE IV- District Revenues *with* Hale Community Energy *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable	M&O Taxes		Recapture Amount	Hold	M&O	District Revenue
	Value	Compressed Rate	State Revenue		Harmless Revenue	Taxes > Comp Rate	
2015-2016	73,026,542	730,265	1,562,662	0	2,292,927	312,343	2,605,270
2016-2017	203,756,807	2,037,568	1,514,906	0	3,552,474	293,330	3,845,804
2017-2018	389,974,375	3,899,744	160,071	0	4,059,814	199,746	4,259,560
2018-2019	378,100,119	3,781,001	99,623	1,959,233	1,921,391	631,368	2,552,759
2019-2020	366,738,080	3,667,381	98,489	1,843,594	1,922,277	612,439	2,534,715
2020-2021	355,868,142	3,558,681	97,387	1,733,331	1,922,738	594,329	2,517,067
2021-2022	345,470,999	3,454,710	97,373	1,628,232	1,923,851	577,008	2,500,859
2022-2023	335,528,116	3,355,281	94,887	1,528,091	1,922,078	560,443	2,482,521
2023-2024	326,021,707	3,260,217	93,858	1,432,712	1,921,363	544,605	2,465,968
2024-2025	316,934,703	3,169,347	92,848	1,341,908	1,920,287	529,466	2,449,753
2025-2026	308,250,718	3,082,507	87,117	1,255,497	1,914,127	514,999	2,429,126
2026-2027	299,954,026	2,999,540	85,757	1,173,306	1,911,992	501,176	2,413,168
2027-2028	292,029,535	2,920,295	84,400	1,095,168	1,909,527	487,974	2,397,501

TABLE V – District Revenues *with* Hale Community Energy *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable	M&O Taxes		Recapture Amount	Hold	Taxes >	Payment	Total District Revenue
	Value	Comp Rate	State Revenue		Harmless Revenue	Comp Rate	for District Losses	
2015-2016	73,026,542	730,265	1,562,662	0	2,292,927	312,343	0	2,605,270
2016-2017	203,756,807	2,037,568	1,514,906	0	3,552,474	293,330	0	3,845,804
2017-2018	84,494,375	844,944	220,099	30,077	1,034,966	157,448	3,067,146	4,259,560
2018-2019	85,239,319	852,393	1,402,281	0	2,254,674	308,285	0	2,562,960
2019-2020	85,991,712	859,917	1,384,393	0	2,244,310	306,720	0	2,551,030
2020-2021	86,751,629	867,516	1,366,427	0	2,233,944	305,162	0	2,539,106
2021-2022	87,519,146	875,191	1,348,396	0	2,223,588	303,613	0	2,527,201
2022-2023	88,294,337	882,943	1,330,263	0	2,213,206	302,072	0	2,515,278
2023-2024	89,077,280	890,773	1,312,063	0	2,202,836	300,539	0	2,503,374
2024-2025	89,868,053	898,681	1,293,784	0	2,192,464	299,014	0	2,491,478
2025-2026	308,250,718	3,082,507	1,227,835	0	4,310,342	344,133	0	4,654,475
2026-2027	299,954,026	2,999,540	85,757	1,173,306	1,911,992	501,176	0	2,413,168
2027-2028	292,029,535	2,920,295	84,400	1,095,168	1,909,527	487,974	0	2,397,501

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Current School Finance Law

A major overhaul of the school finance formulas was implemented as a result of House Bill 1 of the 79th Legislative Session and became effective for the 2006-2007 school year. Those formula changes had an effect on the district's financial impact from granting a property value limitation. Due to the district's "Hold Harmless" provision that was enacted in the funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82nd Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

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Payments in Lieu of Taxes

Assuming that the District and Hale Community Energy, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Petersburg ISD by Hale Energy, the projected amount of these payments over the life of the agreement is \$312,280 of the \$22.954 million net tax savings amount. This amount will be computed annually according to Section IV of the Agreement.

TABLE VI - Calculation of the Payment in Lieu of Taxes:

Fiscal Year	Net Tax Savings	Petersburg ISD \$100/ADA	Hale Energy's Share
2015-2016	0	24,751	(24,751)
2016-2017	0	24,627	(24,627)
2017-2018	506,970	24,504	482,466
2018-2019	3,484,971	24,381	3,460,590
2019-2020	3,343,233	24,259	3,318,973
2020-2021	3,207,163	24,138	3,183,025
2021-2022	3,076,537	24,017	3,052,519
2022-2023	2,951,135	23,897	2,927,238
2023-2024	2,830,750	23,778	2,806,972
2024-2025	2,715,180	23,659	2,691,521
2025-2026	838,500	23,541	814,959
2026-2027	0	23,423	(23,423)
2027-2028	0	23,306	(23,306)
Totals	22,954,438	312,280	22,642,158

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus Name	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Petersburg School	EE thru 12	22	396	282	114
Total		22	396	282	114

The building capacities are based on 18 students per classroom for all grade levels. Petersburg ISD is an Early-education through 12th grade district.

Hale Community Energy, LLC provided supplemental information with their application that projected the number of full-time employees that are expected for permanent employment after construction of the project is completed. They projected that eight full-time employees are expected. It is not known whether these would be new employees to the Petersburg ISD, or if current residents would occupy these positions; however, it is assumed that these employees would be new residents to the district.

Based on average statewide figures provided by a demographer, it is projected that each new household would produce .5 students. Thus, the new eight positions equates to 4 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Petersburg ISD as displayed in Table VII above.

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Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Hale Community Energy, LLC, would be beneficial to both Hale Energy and Petersburg ISD under the current school finance system.

Hale Community Energy, LLC would benefit from reduced property taxes during years three through ten of the LAVA. Although some of the tax savings would be used to offset district's revenue losses and payments in lieu of taxes to the District, Hale Energy is projected to benefit from an 88% tax savings over the first eleven year period of this agreement. Hale Energy also has the option of terminating the Agreement if the amount paid to the District during a tax year is greater than the amount of taxes that would have been paid without the agreement; therefore, there is no inherent risk for the company from entering into the Agreement.

Petersburg ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Hale Energy to offset any district losses caused by the LAVA. An annual calculation will be performed each year to determine if a loss to the District has been incurred. The revenue impact to the District will be computed by comparing the District's revenues with and without the LAVA in effect.